

# REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE AND THE COUNCIL ON GREATER GIYANI MUNICIPALITY

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I have audited the financial statements of the Greater Giyani Municipality set out on pages ... to ... , which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2012 (Act No.5 of 2012) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse audit opinion.

### Basis for adverse opinion

#### Property, plant and equipment

6. The municipality did not depreciate separately each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item in accordance with SA Standards of GRAP 17, *Property, plant and equipment*. Consequently, I was unable to determine whether any depreciation adjustments to the property, plant and equipment

balance of R72 810 221 (2012: R53 047 191) as per note 7 to the financial statements were necessary.

7. The municipality did not perform an impairment assessment for all assets where there was an indication that the asset might be impaired in accordance with the SA Standards of GRAP 17, *Impairment of assets*. Consequently, I was unable to determine whether any impairment adjustments to the property, plant and equipment balance of R213 334 996 (2012: R188 041 419) as per note 7 to the financial statements were necessary.
8. I was unable to obtain sufficient appropriate audit evidence for road infrastructure, included in note 7 to the financial statements amounting to R136 033 988 (2012: R130 948 783). The amounts for road infrastructure were not adequately unbundled. I was unable to physically confirm roads by alternative means. Consequently, I was unable to determine whether any adjustment relating to property, plant and equipment stated at R213 334 996 (2012: R188 041 419) in the financial statements was necessary.
9. I was unable to obtain sufficient appropriate audit evidence for land included in note 7 to the financial statements. The value of land in the accounting records did not appear on the municipality's valuation roll. I was unable to physically confirm land by alternative means. Consequently, I was unable to determine whether any adjustment relating to Property, plant and equipment stated at R213 334 996 (2012: R188 041 419) in the financial statements was necessary.

#### **Cash and cash equivalents**

10. I was unable to obtain sufficient appropriate audit evidence for an unreconciled difference of R1 755 136 between the underlying accounting records and the amount as per the bank confirmation. The municipality's records did not permit the application of alternative audit procedures. Consequently, I was unable to determine whether any adjustment to cash and cash equivalents stated at R82 971 403 (2012: R62 000 884) in the financial statements was necessary.

#### **Contingent liability**

11. The municipality has not disclosed a contingent liability in respect of the uncertainties arising from the dispute declared by the unions and the pending litigation regarding the wage curve agreement. I was unable to confirm the contingent liabilities by alternative means. Consequently, I am unable to determine whether any adjustments to contingent liability stated at R1 260 000 (2012: R2 120 616) in the financial statements was necessary.

#### **Revenue**

12. There was no system of control over revenue for property rates on which I could rely for the purpose of my audit. There were no alternative satisfactory procedures that I could perform to obtain reasonable assurance that all revenue for property rates was properly recorded in the financial statements. Consequently, I was unable to determine whether any adjustments to the property rates revenue stated at R28 317 885 (2012: R26 202 474) in the financial statements were necessary.
13. There was no system of control over interest on outstanding debtors on which I could rely for the purpose of my audit. There were no satisfactory procedures that I could perform to obtain reasonable assurance that all interest on outstanding debtors was properly recorded in the financial statements. Consequently, I was unable to determine whether any adjustments to the interest on outstanding debtors revenue stated at R7 561 280 (2012: R4 456 981) in the financial statements were necessary.

### **Trade and other payables**

14. The trade and other payables balance of R22 270 641 (2012: R22 209 417), as disclosed in note 8 to the financial statements does not agree to the underlying accounting records and financial statements. The reconciliation between the general ledger and the creditor sub-ledger reflected an unreconciled difference of R15 632 866. Consequently, I was unable to determine whether any adjustments to the trade and other payables and service charges revenue in the financial statements were necessary.

### **Irregular expenditure**

The municipality did not include particulars of irregular expenditure in the notes to the financial statements as required by section 125(2)(d)(i) of the MFMA. The municipality incurred expenditure amounting to R1 865 644 that is in contravention of the supply chain management requirements, which was not included in irregular expenditure as stated in note 31 to the financial statements. I was unable to confirm the irregular expenditure by alternative means. Consequently, I am unable to determine whether any adjustments to irregular expenditure stated at R7 100 947 (2012: R1 273 482) in note 31 to the financial statements is necessary.

### **Related parties**

15. International Public Sector Accounting Standard, IPSAS 20, *Related-party disclosures* requires disclosure of the remuneration and number of key management personnel. All members of key management personnel and councillors have not been accounted for as related parties which resulted in the related party disclosure being understated by R4 715 908.

### **Commitments**

16. The municipality did not disclose all unrecognised contractual commitments as required by SA Standards of GRAP 1, *Presentation of financial statements*, as the municipality did not perform an adequate review of all contracts entered into with service providers that have future financial commitments. Consequently, commitments disclosed in note 13 to the financial statements are understated by R16 734 667.

### **Adverse of opinion**

17. In my opinion, because of the significance of the matters described in the Basis for adverse opinion paragraphs, the financial statements do not present fairly the financial position of the Greater Giyani Municipality as at 30 June 2013 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and the DoRA.

### **Emphasis of matter**

I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Restatement of corresponding figures**

18. As disclosed in note 34 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of errors discovered during 2013 in the financial statements of the municipality at, and for the year ended, 30 June 2012.

### **Significant uncertainties**

19. With reference to note 30 to the financial statements, the municipality is the defendant in several claims. The ultimate outcome of these matters cannot presently be determined and

no provision for any liability or contingent asset has been made in the financial statements.

**Material underspending of the budget**

20. As disclosed in the statement of comparison of budget and actual amounts, the municipality has materially underspent on its budget to the amount of R39 103 022. As a consequence, the municipality has not achieved all of its objectives in mainly the budget and treasury units.

**Material impairments**

21. As disclosed in note 5 to the financial statements, material impairments to the amount of R 44 124 650 were incurred as a result of a write-off of irrecoverable trade debtors.

**Additional matters**

I draw attention to the matters below. My opinion is not modified in respect of these matters.

**Unaudited supplementary schedules**

22. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

**Predetermined objectives**

23. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages xx to xx of the annual report.
24. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development priorities. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury *Framework for managing programme performance information (FMPPi)*.
25. The reliability of the information in respect of the selected development priority is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

The material findings are as follows:

## **Usefulness of information**

### **Presentation**

#### **Measures taken to improve performance not supported by sufficient appropriate evidence**

26. Section 46 of the Municipal Systems Act 2000, (Act No.32 of 2000) (MSA) requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Adequate and reliable corroborating evidence could not be provided for 90% of measures taken to improve performance as disclosed in the annual performance report. The municipality's records did not permit the application of alternative audit procedures.

Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the reliability of the measures taken to improve performance.

### **Consistency**

#### **Reported indicators and targets not consistent with planned indicators and targets**

27. The MSA, section 41(c) requires that the integrated development plan should form the basis for the annual report, therefore requiring consistency of indicators between planning and reporting documents. A total of 21% of the reported indicators are not consistent with the indicators as per the approved integrated development plan. This is due to the lack of proper review and procedures for monitoring of the planning and reporting of performance information.
28. The MSA, section 41(c) requires that the integrated development plan should form the basis for the annual report, therefore requiring consistency of targets between planning and reporting documents. A total of 66% of the reported targets are not consistent with the targets as per the approved integrated development plan. This is due to the lack of proper review and procedures for monitoring of the planning and reporting of performance information.

### **Measurability**

#### **Performance targets not specific**

29. The National Treasury *FMPPI* requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 71% of the targets were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was aware of the requirements of the *FMPPI* but did not receive the necessary training to enable application of the principles.

#### **Performance targets not measurable**

30. The National Treasury *FMPPI* requires that performance targets be measurable. The required performance could not be measured for a total of 71% of the targets. This was due to the fact that management was aware of the requirements of the *FMPPI* but did not receive the necessary training to enable application of the principles.

#### **Performance indicators not verifiable**

31. The National Treasury *FMPPI* requires that it must be possible to validate the processes and systems that produce the indicator. A total of 68% of the indicators were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the lack of key controls in the relevant systems of collection, collation, verification and storage of actual performance information.



### **Performance indicators not well defined**

32. The National Treasury *FMPPI* requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 68% of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was aware of the requirements of the *FMPPI* but did not receive the necessary training to enable application of the principles

### **Reliability of information**

#### **Reported performance not reliable**

33. The National Treasury *FMPPI* requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to infrastructure development and basic service delivery development priority.

This was due to limitations placed on the scope of my work due to the fact that the institution could not provide sufficient appropriate evidence in support of the information presented with respect to the development priority.

### **Compliance with laws and regulations**

I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

#### **Strategic planning and performance management**

34. The annual performance report for the year under review does not include measures taken to improve performance, as required by section 46 (1)(c) of the MSA.
35. The accounting officer of the municipality did not by 25 January assess the performance of the municipality during the first half of the financial year, as required by section 72(1)(a)(ii) of the MFMA .

#### **Annual report and annual financial statements**

36. Financial statements were not submitted for auditing within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.
37. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors were not adequately corrected, which resulted in the financial statements receiving a adverse audit opinion.

#### **Procurement and contract management**

38. The performance of contractors was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
39. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.

40. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

#### **Expenditure management**

41. Money owing by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.
42. Reasonable steps were not taken to prevent irregular as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

#### **Revenue management**

43. A credit control and debt collection policy was not implemented, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of the MFMA.
44. An adequate management, accounting and information system which accounts for revenue was not in place, as required by section 64(2)(e) of the MFMA..
45. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

#### **Asset management**

46. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2) (a) of the MFMA.
47. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

#### **Liability management**

48. An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.
49. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) of the MFMA.

#### **Consequence management**

50. Irregular as well as fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.

#### **Internal control**

I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for adverse opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

#### **Leadership**

51. The accounting officer and management did not exercise adequate oversight responsibility over the enforcement of the GRAP standards in preparation of the financial statements.

52. Management did not have sufficient monitoring controls to ensure the proper implementation of the action plan and reports from internal audit. The municipality did not properly plan and provide training on performance information planning, management and reporting.
53. Leadership did not regularly monitor management's compliance with laws, regulations and internally designed policies and procedures. As a result, significant non-compliance issues were noted.

#### **Financial and performance management**

54. A lack of adequate technical knowledge within management, high level of reliance on consultants with regard to the preparation of the annual financial statements and a lack of adherence to laws and regulations resulted in the opinion received on the submitted annual financial statements and reported performance against predetermined objectives.
55. The municipality did not have a proper system of record management that provides for the maintenance of information that supports the financial statements and reported performance information.
56. The municipality does not have internal control systems to recognise all land in property, plant and equipment, all receivables and all revenue.

#### **Governance**

57. The risk assessment procedures implemented by the municipality were not adequate, as all risks affecting the municipality were not identified.

*Auditor General*

Polokwane

18 August 2014



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*